

Message Text

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O R 161047Z SEP 76

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SUBJECT: PROPOSALS SUBMITTED BY THE G-19 ON THE

PROBLEMS OF INDEBTEDNESS OF DEVELOPING COUNTRIES IN
FINANCIAL AFFAIRS COMMISSION

BEGIN TEXT:

FUTURE DEBT RENEGOTIATIONS FOR INTERESTED DEVELOPING
COUNTRIES.

INTEGRAL TO THE CREATIONS OF A NEW INTERNATIONAL
ECONOMIC ORDER IS THE NECESSITY OF GIVING A NEW
ORIENTATION TO PROCEDURES FOR DEBT REORGANIZATION
OF DEBT OWED TO DEVELOPED COUNTRIES AWAY FROM
THE PAST EXPERIENCE OF A PRIMARILY COMMERCIAL
FRAMEWORK TOWARDS A DEVELOPMENT APPROACH TO THIS END,
THERE IS AN OBVIOUS NEED TO REDESIGN AND REORIENT
THE OPERATIONS SUCH AS THOSE OF THE AID CONSORTIA
AND THE CREDITOR CLUBS IN THE CONTEXT OF
INTERNATIONAL FINANCIAL CO-OPERATION AND KEEPING
IN VIEW THE NATIONAL AND INTERNATIONAL DEVELOPMENT
GOALS AND TARGETS.

TO THIS END, THE COMMISSION ON FINANCIAL AFFAIRS
AGREES TO THE FOLLOWING.

GENERAL OBJECTIVES OF DEBT REORGANIZATION

- I. POLICIES WITH REGARD TO DEBT SHOULD BE CONSIDERED
IN THE OVERALL CONTEXT OF INTERNATIONALLY AGREED
DEVELOPMENT TARGETS WHICH CALL FOR AN INCREASED
NET TRANSFER OF RESOURCES TO DEVELOPING
COUNTRIES, NATIONAL DEVELOPMENT OBJECTIVES
AND WITHIN THE FRAMEWORK OF INTERNATIONAL
FINANCIAL CO-OPERATION
- II. DEBT REORGANIZATION, IN APPROPRIATE CIRCUMSTANCES,
SHOULD BE RECOGNIZED AS A LEGITIMATE MEANS OF
INCREASING UNITED AND QUICKLY DISBURSABLE RESOURCE
TRANSFERS TO DEVELOPING COUNTRIES IN ACCORDANCE
WITH THEIR DEVELOPMENT NEEDS AND GOALS
- III. IT SHOULD BE RECOGNIZED THAT OFTEN DEBT

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PROBLEMS INDICATE A NEED FOR AUGMENTED FINANCIAL
FLOWS ON APPROPRIATE TERMS IN ADDITION TO
DEBT REORGANIZATION

- IV. DEBT RELIEF SHOULD NOT BE RESTRICTED TO CASES
OF SO-CALLED DEBT CRISIS SINCE THIS PENALIZES
COUNTRIES THAT HAVE BEEN FORCED TO ABORT
THEIR EXTERNAL DEBTS. THUS, WAYS AND MEANS

MUST BE FOUND FOR DEVELOPING COUNTRIES TO
INITIATE THE RENEGOTIATIONS OF FINANCIAL
ARRANGEMENTS AT AN EARLY STAGE OF EMERGING
DIFFICULTIES

V. DEBT POLICIES SHOULD BE APPLIED IN SUCH A WAY
THAT DEVELOPMENT PROGRAMMES OF DEVELOPING
COUNTRIES ARE NOT JEOPARDIZED AND THEIR
DEVELOPMENT GOALS ARE ADEQUATELY FULFILLED.

VI. POLICIES WITH REGARD TO DEBT AND NET RESOURCE
TRANSFERS SHOULD BE CONSIDERED IN AN INTEGRATED
MANNER AGAINST THE BACKGROUND OF INTERNATIONALLY
ACCEPTED TARGETS AND THE ECONOMIC AND SOCIAL
OBJECTIVES AND PRIORITIES AS SPECIFICALLY
ARTICULATED BY THE DEBTOR COUNTRY ITSELF

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VII. DEBT REORGANIZATION SHOULD CONTRIBUTE TO
SAFEGUARDING THE LEGITIMATE INTERESTS OF BOTH
DEBTOR AND CREDITOR NATIONS AND TO INCREASING
THE CAPACITY OF THE DEBTOR COUNTRIES TO DIS-
CHARGE THEIR DEBT SERVICING LIABILITIES OVER
THE LONG RUN CONSISTENT WITH THEIR DEVELOPMENT
OBJECTIVES.

VIII. DEBT REORGANIZATION SHOULD BE CARRIED OUT
WITHIN AN INSTITUTIONAL FRAMEWORK THAT WOULD
ENSURE THE APPLICATION OF THE PRINCIPLES OF
INTERNATIONAL FINANCIAL CO-OPERATION AND
PROTECTS THE INTERESTS OF DEBTORS AND CREDITORS
EQUITABLY.

WITHIN THE FRAMEWORK OF THESE GENERAL OBJECTIVES,
RENEGOTIATION OF FINANCIAL ARRANGEMENTS INCLUDING,
INTER-ALIA, DEBT REORGANIZATIONS, SHOULD BE IMPE-
MENTED. RULES AND PROCEDURES SHOULD BE ESTABLISHED
TO REGULATE THE ENTIRE PROCESS OF DEBT REORGANIZATION
IN ALL ITS STAGES. THIS INVOLVES THE PROCEDURE FOR
THE EARLY INITIATION OF INTERNATIONAL ACTION, BY A
DEVELOPING COUNTRY, RULES AND PROCEDURES GOVERNING THE
ANALYSIS OF THE COUNTRY'S ECONOMIC SITUATION TAKING
FULLY INTO ACCOUNT THE DEVELOPMENT NEEDS OF THE DEVELOP-
ING COUNTRY ONCE INTERNATIONAL ACTION HAS BEEN INITIATED
AND FINALLY, RULES WHICH WOULD PROTECT THE COUNTRY
AGAINST THE RECOMMENDATION AND ADOPTION OF MEASURES
INCONSISTENT WITH ITS SOCIO-ECONOMIC GOALS AND DEVELOP-

MENT STRATEGY.

PROCEDURE FOR THE INITIATION OF INTERNATIONAL ACTION
THE PROCEDURE GOVERNING THE INITIATION BY A
DEVELOPING COUNTRY OF INTERNATIONAL ACTION WITH REGARD
TO THE RENEGOTIATION OF FINANCIAL ARRANGEMENTS SHOULD
CONTAIN THREE FUNDAMENTAL ELEMENTS:

FIRST, THE PROCEDURE SHOULD CONFIRM THAT IT IS THE
EXCLUSIVE RIGHT OF THE DEBTOR COUNTRY TO INITIATE THE
PROCESS OF RENEGOTIATION. IT SHOULD NOT IN ANY WAY
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OPEN THE POSSIBILITY OF INTERNATIONAL SURVEILLANCE,
A PRIORI ANALYSIS OR INTERFERENCE.

SECOND, IT SHOULD RESULT IN ACTION AT AN EARLY STAGE,
WELL BEFORE THE PROBLEMS OF THE DEVELOPING COUNTRY
HAVE REACHED CRISIS PROPORTIONS AND HAVE DAMAGED ITS
DEVELOPMENT PROGRAM.

THIRD, DEVELOPED CREDITOR COUNTRIES SHOULD GUARANTEE
TO TAKE ACTION IN ACCORDANCE WITH THE AGREED RULES
AND PROCEDURES WHENEVER THE DEVELOPING COUNTRY
INITIATES THE PROCESS ACCORDING TO AGREED PRINCIPLES.

IT FOLLOWS FROM THE ABOVE THAT IT WILL BE NECES-
SARY TO SEEK THE ESTABLISHMENT OF AN AGREED OBJECTIVE
PRINCIPLE THAT WOULD ENTITLE A COUNTRY TO INITIATE
DISCUSSIONS ON ITS FINANCING REQUIREMENTS WITHIN THE
FRAMEWORK OUTLINED ABOVE.

PROCEDURE FOR ANALYSIS OF THE COUNTRY'S LONG-TERM
ECONOMIC SITUATION.

HAVING INITIATED THE RENEGOTIATION OF A COUNTRY'S
FINANCIAL ARRANGEMENTS, INCLUDING DEBT REORGANIZATION,
WITHIN A CONTEXT COMMITTING THE DONOR COUNTRIES TO
ACTION, THE NEXT STEP IS THE PREPARATION OF DETAILED
ANALYSES OF THE COUNTRY'S LONG-TERM ECONOMIC SITUATION.
THESE ANALYSES WILL HAVE AS THEIR PRIMARY OBJECTIVE
PROTECTION OF THE COUNTRY'S DEVELOPMENT GOALS AND
STRATEGY WITHIN THE BROADER CONTEXT OF THE INTERNATIONAL
DEVELOPMENT STRATEGY AND THE NEW INTERNATIONAL ECONOMIC
ORDER. SECOND, SUCH ANALYSES WILL NOT CALL INTO QUES-
TION THE SOCIO-ECONOMIC ORIENTATION AND THE DEVELOPMENT
PRIORITIES ESTABLISHED BY THE COUNTRY.

INCLUDED IN THESE ANALYSES WILL BE FOUR K
KEY ELEMENTS:

FIRST, THERE WILL BE ESTIMATES OF LONG-TERM CAPITAL
REQUIREMENTS AND PROJECTED AVAILABILITIES. THESE
ESTIMATES SHOULD BE MADE FOR A PERIOD OF AT LEAST FIVE
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YEARS, WHILE THE FINANCIAL IMPLICATIONS SHOULD BE

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ANALYZED OVER A SUBSTANTIALLY LONGER PERIOD.

SECOND, AN EXAMINATION WILL BE MADE OF THE EXTENT TO WHICH FACTORS OPERATING IN THE INTERNATIONAL ECONOMY CONTRIBUTED TO THE CURRENT DEVELOPMENTAL AND FINANCIAL PROBLEMS OF THE COUNTRY.

THIRD, A SIMILAR EXAMINATION WILL BE CARRIED OUT OF THE EXTENT TO WHICH CHANGES IN INTERNATIONAL POLICIES MAY HAVE CONTRIBUTED TO THE CURRENT AND PROSPECTIVE SITUATION.

FOURTH, BASED ON THE NET CAPITAL FLOWS REQUIRED BY THE COUNTRY IN THE PURSUIT OF ITS DEVELOPMENT STRATEGY WITHIN THE CONTEXT OF INTERNATIONALLY AGREED TARGETS, THOSE COMBINATIONS OF ADDITIONAL DEVELOPMENT FINANCE, DEBT REORGANIZATION AND NATIONAL AND INTERNATIONAL POLICY ACTIONS WILL BE INDICATED THAT WOULD MOST QUICKLY RESTORE THE COUNTRY BACK TO ITS DEVELOPMENT PATH.

GUIDELINES FOR FINANCIAL RENEGOTIATION.

GUIDELINES SHOULD BE ESTABLISHED FOR FINANCIAL RENEGOTIATIONS. THEY SHOULD BE CONSISTENT WITH SPIRIT AND CONTENT OF THE INTERNATIONAL DEVELOPMENT STRATEGY AND THE NEW INTERNATIONAL ECONOMIC ORDER. SPECIFICALLY, THESE GUIDELINES SHOULD INCLUDE, INTER-ALIA, THE FOLLOWING ELEMENTS:

FIRST. RENEGOTIATIONS SHOULD BE COMPLETED EXPEDITIOUSLY IN ORDER TO REDUCE TO THE MINIMUM ANY UNCERTAINTIES ASSOCIATED WITH THEM.

SECOND. MEASURES TO BE ADOPTED SHOULD BE CONSISTENT

WITH A RATE OF GROWTH OF PER CAPITA INCOME ABOVE
AN ACCEPTED MINIMUM.

THIRD. MEASURES TO BE ADOPTED SHOULD BE CONSISTENT
WITH THE SOCIO-ECONOMIC OBJECTIVES OF THE
COUNTRY'S DEVELOPMENT STRATEGY.

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FOURTH. THE PROVISION OF NEW FLOWS AND THE TERMS OF
DEBT RENEGOTIATION SHOULD BE ON A LONG-TERM
BASIS CONSISTENT WITH THE COUNTRY'S LONG-TERM
FINANCIAL AND DEVELOPMENTAL NEEDS AS REFLECTED
IN THE ANALYSIS.

FIFTH. THE TERMS AND CONDITIONS OF RESCHEDULED COM-
MERCIAL DEBTS SHOULD BE NO HARSHER THAN THE
BEST TERMS PREVAILING IN THE INTERNATIONAL
FINANCIAL MARKETS. THE CONDITIONS OF OFFICIAL
DEBT RESCHEDULING SHOULD BE AT LEAST AS SOFT
AS THOSE ASSOCIATED WITH CURRENT COMMITMENTS
AT THE TIME OF RENEGOTIATION.

SIXTH. PROVISIONS SHOULD BE INCLUDED TO FACILITATE
ADDITIONAL FLOWS OR ACCELERATED REPAYMENTS IF
THE ANALYSIS PROVED EITHER TOO OPTIMISTIC OR
TOO PESSIMISTIC WITH RESPECT TO THE PACE OF
THE COUNTRY'S RECOVERY.

INSTITUTIONAL ARRANGEMENTS FOR FINANCIAL RENEGOTIATIONS.

AN INSTITUTIONAL FRAMEWORK SHOULD BE PROVIDED
FOR, WHICH WILL HAVE THE AUTHORITY TO CONVENE, ORGANIZE
AND SUPERVISE FINANCIAL RENEGOTIATIONS IN ACCORDANCE
WITH INTERNATIONALLY AGREED PRINCIPLES, RULES AND
PROCEDURES. END TEXT.

THESE PROPOSALS WILL BE DISCUSSED FURTHER IN FINANCIAL
AFFAIRS COMMISSION ON SEPTEMBER 17.
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